



Committee On Finance

Max Baucus, Ranking Member

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Contact: Laura Hayes
202-224-4515

Senators Release Report on IRS Enforcement and Compliance Capabilities *Study Shows Continual Decrease in Corporate Audits, Lack of Follow-Up*

(WASHINGTON, D.C.) U.S. Senators Chuck Grassley and Max Baucus, Chairman and Ranking Member of the Senate Finance Committee, today commented on a report conducted by the Treasury Inspector General for Tax Administration (TIGTA) showing "mixed" results regarding the IRS' tax compliance enforcement efforts.

The report found that while Internal Revenue Service (IRS) enforcement efforts improved slightly in fiscal year 2003 compared to fiscal year 2002, efforts still remain far below pre-1998 levels. According to TIGTA, the number of individual income tax returns examined increased from 617,765 in FY 2000 to 849,296 in FY 2003, with 76 percent of those examined in FY 2003 done by correspondence.

In addition, the study confirms concerns about corporate tax compliance, stating that IRS examinations of corporate tax returns have decreased continuously since Fiscal Year 1997, falling 67 percent total. In FY1997, 1 out of 52 returns filed were examined, while in FY 2003, the IRS examined only 1 in every 182 returns.

Baucus said: "While some of the stats in the TIGTA report look promising, the results aren't so shiny when you scratch below the surface. I'm concerned that IRS's audit priorities are misplaced. Taxpayers making less than \$25,000 a year are more likely to be audited than those making over \$100,000. Moreover, the IRS is trying to bolster its audit figures, not by going after those who are deliberately trying to cheat on their taxes, but by sending more letters regarding mathematical errors or mismatching of taxpayer information."

Grassley said: "I'm worried that these numbers don't reflect an IRS that is working smarter and more efficiently. Just like business, the IRS needs to do more with available resources and get a bigger bang for the buck. It needs to target limited resources in identifying the tax cheats. In addition, it's clear that the IRS needs to be thinking of more innovative ways to deal with tax cheats, such as taking better advantage of individuals who are in a position to blow the whistle on tax fraud."

Baucus continued: "In this post-Enron era, we should be focusing our limited tax enforcement resources on those who seek to intentionally cheat the tax system and have the tools at their disposal to do so. Every year, the IRS claims that more than \$300 billion in taxes go uncollected. And the GAO recently reported that most American and foreign corporations operating in the U.S. paid no income tax between 1996 and 2000. And as reported by TIGTA, corporate audits have steadily decreased since 1997. Clearly something is broken and it's time to restore fundamental fairness and responsibility to the system."

The Treasury Inspector General for Tax Administration was established by Congress to provide independent oversight of the IRS. Through its audit and investigative programs, TIGTA promotes efficiency and effectiveness in the administration of federal tax laws. TIGTA is committed to the prevention and detection of fraud, waste, and abuse affecting the American tax system.

Today's report, "Trends in Compliance Activities Through Fiscal Year 2003," 2004-30-083, will be available at <http://www.ustreas.gov/tigta/>.

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